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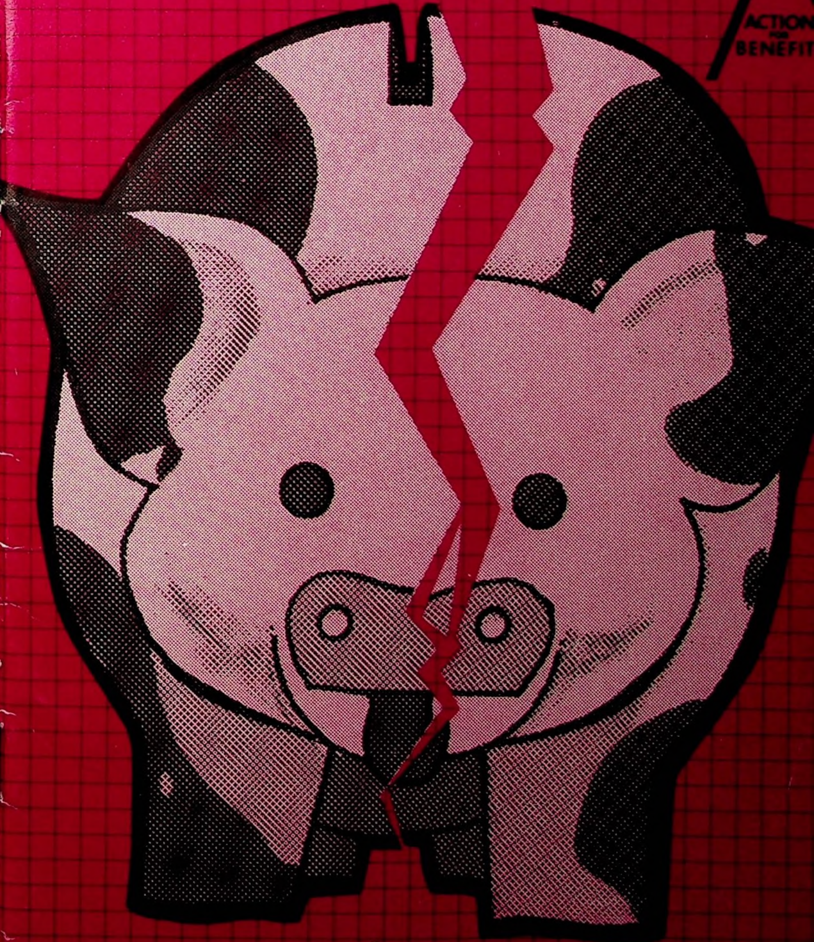

SOCIAL INSECURITY

—callous plans for pensions & benef

About the Labour Research Department

The Labour Research Department is an independent, trade union based research organisation which exists to supply trade unionists and the labour movement with the information they need. Through its publications and through its enquiry service it provides details on:

- wages and conditions
- the profits of individual companies
- major industries
- health and safety at work
- the economy
- the law at work
- social services
- and many topics in the economy, political and industrial fields.

The Labour Research Department wishes to acknowledge the invaluable assistance of Lesley Mercer and Judy McKnight, both of the Society of Civil and Public Servants, and of Sue Ward, independent pensions specialist, in preparing this booklet.

Cartoons by Phil Evans

Published by
LRD Publications Ltd
78 Blackfriars Road
London SE1 8HF
1/25/ February 1986

Printed by
RAP Ltd
201 Spotland Road
Rochdale OL12 7AF
Telephone (0706) 44981
(T.U. All Depts.)

ISBN 0900508868

References in this booklet have been kept simple. "The Bill" means the *Social Security Bill*, published on 17 January 1986. "The white paper" means the detailed paper *"Reform of Social Security — programme for action"* (Cmnd 9691), published in December 1985.

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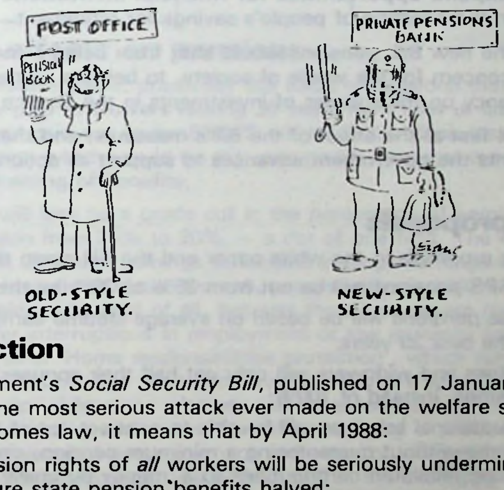


Introduction

The government's *Social Security Bill*, published on 17 January 1986, represents the most serious attack ever made on the welfare state. If this Bill becomes law, it means that by April 1988:

- the pension rights of *all* workers will be seriously undermined, and future state pension benefits halved;
- at least four million households, will have their benefits cut — especially pensioners and young people.

This booklet has been produced by the **Labour Research Department** in conjunction with **Action for Benefits** (a grouping of trade unions and pressure groups) to spell out the implications of this new legislation, and why it is vital for all trade unionists to oppose it.

1. Pensions

Introduction

The changes to pensions in the white paper and the Bill are more subtly dangerous than were the government's earlier green paper proposals to abolish the state earnings-related pension scheme (SERPS). Instead of being abolished, SERPS is being undermined so as to make it appear less attractive than the 'money purchase' pension scheme the government wants to encourage (money purchase schemes are explained on page 4).

The plans are based not so much on any policy for pensions as such, as on a set of political objectives. These are:

- **to cut back** state provision for earnings related pensions, leaving only a basic 'subsistence' state pension;
- **to expand property ties**, by putting more people in the position of owning an 'investment';
- **to expand opportunities for financial institutions** to profit from the handling of people's savings for retirement.

Under the new Bill, pensions would shift from being a matter of collective concern for the whole of society, to being a matter of dependency on the success of investments in the finance markets.

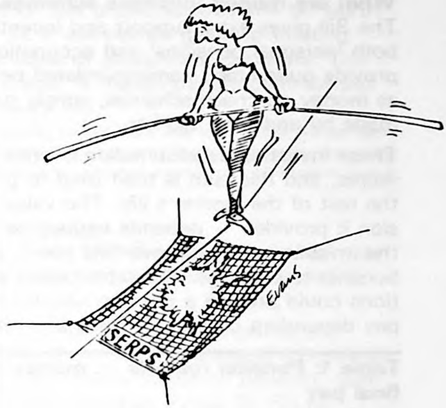
We look first at the effect of the Bill's measures, and then at the arguments the government advances to support its actions.

Key proposals

The key proposals in the white paper and the Bill mean that:

- SERPS pensions will be cut from 25% to 20% by the year 2013;
- these pensions will be based on average lifetime earnings instead of the best 20 years;
- widows and widowers will only get half their spouses' SERPS pensions, instead of 100%;
- occupational schemes will be able to contract out of the state scheme without guaranteeing a minimum pension, simply by making minimum contributions to a 'money purchase' scheme;
- individual workers will be able to opt out of their employer's pension scheme into a personal money purchase scheme;
- occupational schemes will in future have to bear the cost of 3% per year inflation protection for pensions;
- the government will give a subsidy, paid for by everyone, worth 2% of pay to **new** personal or occupational money purchase schemes until 1993.

The present SERPS scheme provides a guaranteed pension equal to 25% of the average of a worker's earnings in the best 20 years, revalued to take account of inflation. Occupational schemes can contract out of SERPS, and pay lower national insurance contributions, only if they also guarantee a minimum earnings related pension at least equivalent to SERPS. 'Money purchase' schemes don't guarantee to pay a pension linked to earnings at all — they just invest contributions, and what a worker gets on retirement depends entirely on how well those investments have done.



General effects on pensions

The main effect is to cut drastically the value of pensions that would otherwise be paid to workers retiring 20 years from now or later. By 2033, the total paid out under SERPS will be £13.2 billion instead of the £25.5 billion which would be the case under the present scheme — a virtual halving of benefits.

All workers will lose by a crude cut in the percentage of earnings paid as pension from 25% to 20% — a cut of one fifth. The change from the best 20 years' earnings to lifetime average earnings will however hit lowpaid workers, women, people with disabilities and those unemployed hardest of all, because these groups are most likely to suffer interruptions in employment or low earnings for a number of years. 'Home responsibilities protection', which currently provides credits for basic state pensions for the years when people have to care for children or relatives, will be extended to cover SERPS, by excluding such years from the averaging of lifetime earnings. But years of unemployment and years of low earnings, including part-time earnings, will be included in the averaging of lifetime earnings. Women will again be hardest hit by the halving of the widows'/widowers' entitlement.

Those contracted in to SERPS will lose directly; those currently contracted out will also lose because the minimum benefits legally required of their employers' schemes will be reduced accordingly. And all workers will be at risk from the threat of 'money purchase' schemes being introduced.

'Money purchase' pensions

What are money purchase schemes?

The Bill gives extra support and incentives for private schemes — both 'personal pensions' and occupational schemes — which do not provide guaranteed earnings-related pensions. Such schemes, known as money purchase schemes, simply promise to invest contributions made by and for a worker.

These investments accumulate a small fund by the time the worker retires, and this sum is then used to provide an annual income for the rest of the worker's life. The value of this sum — and the pension it provides — depends entirely on the success or otherwise of the investments made over the years, and bears no guaranteed relationship to earnings. The table below shows that the same contributions could provide a pension varying between 11% and 43% of final pay depending on interest rates and returns on investment.

Table 1: Pension roulette ... money purchase pension as % of final pay

Interest rate	Investment return on contributions		
at retirement	9% p.a.	11% p.a.	13% p.a.
9% p.a.	11%	18%	31%
11% p.a.	14%	22%	37%
13% p.a.	16%	26%	43%

Based on contributions of 4% of pay from age 18 to age 65 expressed as % of final pay
From: H. Wolanski *'Personal Pensions — how much or how little'*

The Bill encourages money purchase schemes in a number of ways.

Firstly, the right of individuals to go for their own personal pension schemes is limited to money purchase schemes only *(schedule 1, para 3)*. All workers will be given this right, so that those currently covered by occupational schemes will be able to opt out of them into a personal scheme.

Secondly employers will in future be able to contract out of SERPS by offering occupational schemes which are money purchase instead of guaranteeing a pension linked to final salary, *(clause 6 and schedule 2)*. Employers would thus be allowed to run a scheme which would "keep their commitments to a known level... on the basis of a guaranteed minimum level of contributions, as an alternative to promising a guaranteed minimum pension" *(white paper, para 2.27)*.

Thirdly, the minimum level of contributions required for both personal pensions and employers' money purchase schemes will only be the equivalent of the reduction in national insurance contributions for contracting out, probably 5½% *(Report by Government Actuary Cmnd 9711 para 2.3)*, so such schemes need be no more costly than SERPS *(clauses 3 and 7)*.

Fourthly the DHSS will pay an extra contribution into any personal pension scheme or occupational scheme which contracts out for the first time, for five years until 1993: this public subsidy will be worth 2% of earnings *(clauses 3 and 7).* It will not be given to existing schemes contracted out on the basis of guaranteed pensions. The cost of this will be £60 million if just ½ million people contract out *(Government Actuary's Report para 34).*

> The Secretary of State is actually bribing people from one area of the private sector (occupational pension schemes) into another (insurance companies) with taxpayers' money." (Henry L James, Director General, National Association of Pension Funds, in the *Financial Times* 23.1.86)

The risk in money purchase schemes

Such money purchase schemes mean that the worker's pension carries all of the risk, depending entirely on how the investments perform.

And the revised SERPS scheme will not provide any protection against such risks. The state will *assume* that contracted out money purchase schemes are paying a guaranteed minimum pension, even though they may not *(clause 4, and schedule 2 para 3).* So no payments will be due under SERPS even if the pension falls far short of the guaranteed minimum pension provided to workers contracted out under the present rules, which require a guaranteed pension actually to be paid.

Workers who choose to opt out of existing occupational schemes into a personal 'money purchase' pension scheme, and later realise the error of this choice, will **not** have the right to opt back into their employer's scheme.

Occupational money purchase schemes share the same hazards. A graphic example of what it means to move to money purchase pensions is the case of Timex, which recently closed down its earnings-related pension scheme and introduced a money purchase one instead.

> "It now pays a percentage of each person's wage, varying according to their age, into an individual account, and the person then chooses whether it should be invested in a building society, or in one of a range of funds managed by an insurance company, with money going for instance into UK shares, overseas, property, or a mixture.
>
> Most of the assembly line workers would say openly that they don't understand the investment choice they are making. It could have a huge effect on their pensions though. £1,000 put in a building society account fifteen years ago would have generated £2,844 by now, while in the best performing category of unit trusts it would be £7,369.
>
> At present, the Timex workers can always fall back on their SERPS pension, which they will get in full because their money purchase scheme cannot be contracted out.
>
> In 1988, though, Timex could decide to contract them all out of SERPS, and save itself perhaps 3 or 4% of its total payroll costs by receiving a National Insurance rebate. (Sue Ward, in *The Guardian* 18.1.86)

Such schemes are also far less efficient. Whereas the cost of administering SERPS amounts to just 1½% of the contributions, about 20% of the contributions paid into personal money purchase schemes are swallowed up by the profits and administrative expenses of insurance companies (estimate by Geoffrey Bernstein of City University, reported in *The Financial Times* 21.1.86).

Implications for workers in contracted out schemes

At present some 9¾ million workers are in occupational pension schemes which are contracted out. This means that they pay lower national insurance contributions, and the scheme has to meet the standards laid down: by providing a guaranteed minimum pension (GMP) based on 25% of the average of revalued earnings in the best 20 years of a worker's life.

The proposals in the new Bill carry a number of threats to such schemes.

Firstly any individual is now allowed to opt out of an occupational scheme: clause 14 of the Bill says that membership of an occupational pension scheme can no longer be compulsory. If a number of individuals, especially younger ones, take advantage of this and so cease paying contributions to a scheme, the scheme's finances will be adversely affected, with the result that those remaining in it may be forced to pay higher contributions.

Secondly the legal requirements on such schemes are weakened. GMPs will only have to be based on 20% of the average of revalued earnings over a worker's entire working life; widows need receive only 50% of GMPs; and the requirement of a minimum of 1/80th is abolished. While these changes certainly do **not** mean that an occupational scheme has to worsen its benefits, they do allow employers to try to do so.

Thirdly all employers will have a financial incentive to move to 'money purchase' schemes, which would enable them to contract out on the basis of a contribution of about 4%, compared with the average employer's contribution of 10.6% to present occupational schemes.

The public sector may be particularly at risk. Since 1979 the government has already made a number of attempts to reduce the value of public sector pensions: and the Bill specifically states that crown service (civil service and national health service) are covered. British Airways has already made a move like this, within the present laws, in order to reduce the cost to the firm of the scheme it set up a new scheme, with worse benefits than the existing one, but with reduced contributions.

Finally all workers in such schemes will find themselves paying more. They will pay through their national insurance contributions the cost of the 2% "incentive". They will also be likely to pay more in contributions to their employer's scheme if a significant number of individuals opt out of it in favour of a personal pension. And the reduction in national insurance contributions for contracted out schemes is expected to fall from 6¼% to 5½%.

Implications for workers currently contracted in

All workers currently contracted in to SERPS will suffer as a result of the Bill.

Firstly the benefits they will receive from SERPS will be reduced. Instead of a pension based on 25% of average revalued earnings in the best 20 years, it will be based on 20% of average revalued lifetime earnings — including periods of unemployment. Widows' pensions will fall from 100% to 50% of SERPS pensions. It is a crude cut in benefits.

Secondly their contributions will not fall for about 20 years. They will actually rise for the next two decades (see table 4 on page 10), because the expected increase in the numbers contracting out will leave less people having to support the same benefits in the meantime; and workers contracted in will have to pay towards the 2% subsidy given to new money purchase schemes.

Thirdly workers currently contracted in will be at risk from employers and insurance companies persuading them that they would do better to contract out into a money purchase scheme. Such schemes would have all the risks discussed on p.5.

The only certainty is that contracted in workers will pay at least as much as under the present scheme, and get significantly lower benefits.

Government claims

The government attempts to justify its politically motivated cuts in state pension provision by a number of arguments about the 'cost' of pensions. None of these stands up to examination.

The government argues that the cost of the existing SERPS scheme will become unsupportable because the number of pensioners will rise from just over nine million now to over 13 million in 2035, while the working population will be about the same size as today *(white paper paras. 2.3, 2.4)*.

But the government simply focuses on the number of pensioners, without considering others who are not earning such as children, people at home caring for children and others.

Independent projections on these show that the total ratio of dependents to those working is no cause for alarm even on the most extreme assumptions about the number of pensioners in 2021. On moderate assumptions, the ratio of dependants to workers will be 1.18 — less than it was at any time this century until 1971, and even on extreme assumptions it will rise to 1.29 only in the decade to 2021, remaining at 1.21 or below in the intervening 35 years. This is no higher than in 1951, when the economy was still recovering from the last war. Such ratios are no grounds for panic.

Table 2: The dependant population in the United Kingdom (numbers in thousands)

		Dependant population	Economically active	Dependancy ratio
1901		22.5	15.7	1.43
1951		27.4	22.9	1.20
1971		29.7	26.4	1.13
1981		29.9	26.4	1.13
2011	(A)	31.0	27.6	1.12
	(B)	33.4	27.9	1.20
2021	(A)	32.2	27.5	1.18
	(B)	35.7	27.6	1.29

Source: *"Pensions: the problems of today and tomorrow"*: Professor Bernard Benjamin, Institute of Actuaries, March 1985
Forecasts 'B' for 2011 and 2021 assume much higher survival rates than forecasts 'A'.

This is not the first time a Conservative government has tried to argue that state pension schemes will become an unacceptable burden. In 1954 the Phillips Committee argued that the basic state pension scheme would become unbearably expensive. It correctly predicted that by 1979 the number of pensioners would have risen to 9.5 million and argued drastic measures would have to be taken such as raising the retirement age. But in the event the costs of providing state pensions have been carried without any hue and cry about an unsupportable burden.

No economic problem

The government supports its claim that the existing SERPS scheme is too expensive by projecting the cost of retirement benefits into the future. By 2033, it warns, "spending on pensions will be nearly three times its current level, and indeed will be higher than total social security spending now" *(white paper para 2.2)*.

Such figures make no sense unless they are considered in the context of economic growth. The government's own forecasts assume that the economy — measured by GDP, gross domestic product — will grow at 1.5% a year (a pessimistic assumption).

The table below shows how the growth in pension costs, even if linked to earnings, is dwarfed by the overall growth in the economy. The income available to the rest of us would still rise by 1.4% per year in real terms, compared with overall economic growth of 1.5%.

Table 3: Growth for all

	1984/85	2033/4	% rise	annual % rise
GDP	£325bn	£674bn	79%	1.5%
Pension costs	£15.4bn	£66.5bn	223%	3.1%
Remainder of GDP	£309.6bn	£607.5bn	72%	1.4%

Calculated from government forecasts of pension costs (table 2.10 of volume 3 of green paper). Uses assumption of pensions linked to earnings, not prices as is present Government practice. Uses Government assumption of 1½% annual growth in the economy.

The hidden burden

"It matters little in broad economic terms how their pensions are financed, whether publicly or privately, and whether contributions are funded or pay-as-you-go. The working population has to provide for its dependents out of current income, and that provision can only be made in a form which is a charge on that income.... The only way the economic cost of the elderly can be reduced is to reduce their pensions" (Sir Douglas Wass, former top Treasury civil servant, in *The Observer* 18.8.85).

Financing pensions through investments is just as much a burden on future generations as a state financed one. The pensions will be paid out at the same time in the future, and will have to come out of profits. The more national income that goes to profits, the less is left for wages. Instead of a visible charge on workers through the public mechanism of taxation, it would be an invisible charge through the extraction of profits by business. The burden on the economy would be exactly the same — if the level of pensions remained the same.

The burden of financing pensions

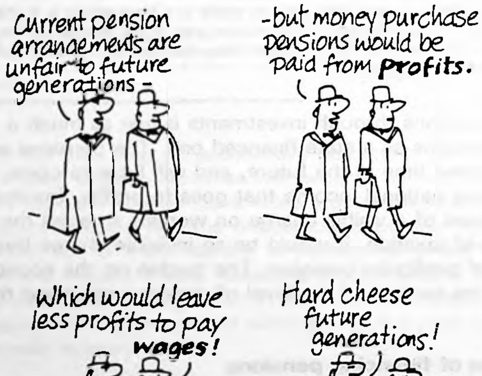
The government assumes that the cost of pensions will be met entirely from national insurance contributions, and argues that these contributions will rise to 'intolerable' levels in 2033/4. This conveniently overlooks the fact which is clear from table 4, that 2033/4 is a *temporary* peak — and the contribution rate falls sharply again after that date. But it is in any case a matter of political choice how

far pensions are financed from national insurance contributions as compared with general taxation. This government has already made such a choice: it has reduced the proportion of national insurance benefits financed from general taxation from 17.6% in 1979/80 to 11.5% in 1984/85 (*green paper, vol 3, para 29, table 2.5).* If the proportion financed out of general taxation was simply restored to its 1979/80 level, the contribution rate under the present system, even in the peak year of 2033/34 would be **lower** than the present level — 17.3% as compared with 17.65%.

Table 4: Estimated joint rates of national insurance contributions (employer plus employee: contracted-in)

Year	Price uprating		Earnings uprating	
	Existing scheme	Revised scheme	Existing scheme	Revised scheme
1986-87	17.65		17.65	
1993-94	14.5	14.8	15.8	16.1
2003-04	14.3	14.3	17.0	17.2
2013-14	15.4	14.4	20.0	19.0
2023-24	16.8	14.5	23.4	21.0
2033-34	18.5	14.4	27.3	23.1
2043-44	16.5	12.1	25.3	20.9
2053-54	15.0	10.6	24.2	19.9

Source: *Report by the Government Actuary on the Social Security Bill 1986 (Cmnd 9711)*, Table 5



Who gains?

"Malcolm Kilminster from Crown Financial Management, outlined what he saw as the method to sell staff pension schemes after 1987. This would start with identifying a good prospect, finding out the facts and presenting the employer with alternatives. Then he would move to a staff briefing, distributing a personal letter and a set of figures to each member. He would sell the problems at a staff meeting, where he would aim to identify with the men (*sic*). He would ask for a show of hands to endorse the proposal, and return to the employer with this.

If the company were not willing to spend money on pensions, he would aim to get access to staff in order to set up his own meeting. He would offer personal illustrations of benefits, and work selling on a one-to-one basis. (from *Pensions World*, December 1985 page 876)

The group which is certain to benefit from the white paper's proposals is the financial establishment — mainly the insurance firms — who would sell, and profit from, the money purchase schemes encouraged by Fowler's plans. "The life insurance firms cracked open the champagne", commented the *Investor's Chronicle* (20.12.85).

The insurance firms no doubt feel that their handsome donations to the Conservative party and other bodies hostile to the labour movement have been equally handsomely rewarded by the profits that would flow from the white paper's proposals.

In 1984, donations to the Conservative party from banking, insurance and investment companies totalled £515,005 *(Labour Research* August 1985 p. 202). And the advisors, brokers and others are all looking to gain: these now include accountancy firms like **Price Waterhouse** — the firm involved in sequestering the NUM's assets — which set up a special 'pensions advisory service' three weeks after the white paper was published.

Conclusion

These new proposals do **not** retain the value and protection that SERPS currently provides for workers. They **do** promise a profitable expansion of business for insurance firms and others, at the expense of workers' pensions and on the back of subsidies paid for by the rest of us. There is no 'saving' being made for the country or the economy as a whole, but simpiy a huge transfer of income away from pensioners and into the profits of financial institutions and others.

The only redeeming feature of these proposals is that Fowler is not daring to bring them into effect until April 1988 — by which time a general election may provide the chance to reject the proposals.

2. Benefits

Introduction

Not content with stripping £10 billion from the benefit system since 1979 in order to give the richest 2% of the population an extra £2 billion in tax reliefs, the government is now proposing measures which will reduce the living standards of most people — especially the old, the young and the unemployed — and shift the social security system further into the direction of total means testing.

According to the government's own figures, just under 4 million claimants will lose money as a result of the proposals and just over 2 million will gain marginally.

The government's figures:
All income-related benefits: changes in disposable income after meeting housing costs: by client group (000s)

Client Group	Increases per week £5+	£3-5	£0-3	Total increased	No change	Total decreased	Decreases per week £0-3	£3-5	£5+
Pensioners age 80+	10	60	200	270	200	350	300	50	20
Pensioners age 60-75	60	40	440	530	920	880	1,490	290	100
Sick or disabled	90	40	70	200	50	60	40	10	10
Lone parents	210	20	40	260	130	250	180	30	40
Couples with children:									
—in full-time work	160	50	80	290	20	100	50	20	30
—not in full-time work	20	110	270	390	50	110	100	10	10
Others:									
—in full-time work	10	—	10	10	10	200	120	40	60
—not in full-time work	10	150	40	200	580	860	390	250	200
Total	**560**	**470**	**1,140**	**2,160**	**1,950**	**800**	**2,640**	**690**	**480**

But these figures seriously understate the effects of the Bill. They do not take into account:

- the reductions in the real value of child benefit;
- the impact of loss of access to single payments;
- the loss of additional payments for those with the **severest** disabilities.

Everyone, including those in paid employment, will suffer from cuts in benefits.

The white paper and the Bill mean:

- **abolition** of two of the universal benefits with the greatest take-up, ie the maternity grant and the death grant;
- **cut backs** in the value of child benefit;
- **reduced benefits** for the unemployed, particularly the young unemployed;
- **more familes** caught by the notorious poverty trap;
- **cutting** the income of **striker's** families;
- the introduction of the concept of **discretionary loans** into the benefits system;
- withdrawal of rights to **widow's pension** for those under 55;
- abolition of **appeal** rights to an independent body for claimants.

The proposals mean that fewer people will get benefits in the future and the benefits which they do get will be reduced. The government also hopes to achieve several other political objectives. For example, the intention behind paying family benefit through the wage-packet is to encourage the growth of the low paid economy and the economic dependence of women upon men. The drastic cutbacks in benefits to the unemployed, particularly the young, are intended to increase the pressure on these claimants to take low-paid work. And they hope that cuts in universal and contributory benefits will build resentment among all workers against paying for means tested benefits which are only paid to some.

Income support

Originally designed as a safety-net for the poorest, 7½ million people now depend on supplementary benefits, due to the inadequacy of such **non** means-tested benefits as unemployment benefit, child benefit, the retirement pension and benefits for single parents and those caring for people with disabilities.

Under the current supplementary benefit system claimants get paid the difference between a government-fixed level and any income they have. Long-term claimants receive a higher rate than short-term claimants (apart from the unemployed) and claimants classified as householders receive a higher rate than non-householders. They can also claim weekly additional payments eg for extra heating needs, and single payments eg for funeral expenses, maternity needs, essential items of furniture, bedding, clothing etc. Housing costs are met in full via the housing benefit scheme.

Under the white paper proposals, this system will be abolished from April 1988 and replaced by a new system called **Income Support.**

The main features of the sytem will be:

- flat-rate personal allowances, set at one rate for single childless people under 25 and at a higher rate for all other claimants:
- premium payments ranging from £3.45 to £17.45 to be paid on top of the personal allowances to certain groups of people; families, single parents, pensioners and the sick and disabled;
- out of their Income Support claimants will have to meet at least 20% of their general rates and **all** of their water rates;
- an increase in the level of capital allowed before claimants are barred from claiming Income Support from £3,000 to £6,000; **bur** benefit to be reduced by £1 for every £250 of capital between the two figures;
- an increase in the basic earnings disregard (ie the amount which a claimant can earn before losing benefit) from £4 to £5 a week and to £15 for single parents, long-term sick and disabled and the long-term unemployed; *but* work related expenses such as child care expenses no longer to be taken into account; where either of a couple is in full-time work — defined as 24 hours a week — they will be ineligible to claim benefit;
- discretionary loans — and in some cases grants — to be paid for certain items currently covered by single payments (see pages 15-16 on the 'Social Fund');
- further consideration to be given as to whether the DHSS should still meet mortgage payments.

The government figures show 1.7 million losers under this new system, including the young, single unemployed who face a straight cut of £5.50 a week if they live away from home, and the seven out of ten single parents now on long-term supplementary benefit who will lose out by the abolition of the long-term rate.

Of the estimated 1.4 million 'gainers', families with children will be the main group to benefit by an average £1.40 a week. *However* these figures do not take into account either the reductions in the value of child benefit which have already been introduced and are scheduled to continue, or the value of reduced pensions in future. Also the loss of single payments, which have been estimated by the Policy Studies Institute to be worth £3.20 per week for the average family.

Contrary to the government's claims of increasing the help to "less well off disabled people", it seems that the greater their disabilities the more claimants will lose out. Under current rules, people with severe disabilities can receive weekly additions of £30-50 per week to help to cover extra costs. Under the new rules, they would receive a premium of only £12.25 for a single claimant or £17.45 for a couple.

Pensioners are in a similar position if they have higher than average additional requirements. For example, a couple in their 70s living in a hard to heat house, may currently receive a heating addition of £4.45 on top of the long-term supplementary benefit rate of £60: a total of £64.45. Under Income Support, the same couple would receive their personal allowance of £48.00 plus the pensioner premium of £15.25: a total of £63.25. Out of this reduced income they would also have to pay 20% of their rates and all water charges.

The overall result is that some groups — notably the unemployed — will have their benefits cut substantially in order that other more 'deserving' groups of poor people do not lose out by quite as much. Cuts in benefits for the unemployed are also intended to increase 'incentives' to the unemployed, especially the young, to take up low paid work of any kind.

Income Support				**Supplementary Benefit** *(Nov. 1985 rates)*				
Personal allowances	£pw	Premiums	£pw		Rates short term £pw	Rates long term £pw	Main additional requirements	£pw
Couple	48.00	Family premium	5.75	Couple	47.85	60.00	Heating additions	2.20 5.45
Single person Age 25+	30.60	Lone parent premium	3.45	Single householder	29.50	37.50	Estate heating:	
Lone parent Age 18+	30.60	Sick & disabled premium (S)	12.25	Non-householder (adult)	23.60	30.00	4 rooms or less	4.40
		(C)	17.45	Non-householder age 16-17	18.20	23.00	5 rooms or more	8.80
Single person Age 18-24	24.00	Pensioner (60-79) premium (S)	10.00	(rent addition)	3.90		Diet	1.60
		(C)	15.25					3.70
								10.65
		Pensioner (80+) premium (S)	12.25				Blind addition	1.25
		(C)	17.45				plus (over 18)	5.50
								or 7.50
							Maintenance & repairs	1.85
Children	No change			Children and young people				
				under 11	10.10			
				11-15	15.10			
				16-17	18.20			

(S) = single; (C) = couple Illustrative income support rates as set out in white paper

Social fund

The Social Fund which will replace the £233 million spent on single payments every year, will come fully into operation in April 1988. The size of the Fund has not been disclosed but is likely to be substantially less than the amount spent on single payments. The total amount of money available will be a fixed cash sum — and payments from it will be at the discretion of local DHSS offices.

From 1988, payments under the Fund can be made for :

- **loans to those on Income Support** — for special or intermittent needs such as the replacement of household items or clothing, or for an unexpected bill. Such loans will have to be repaid out of weekly Income Support;
- **Community Care Grants** — to enable people to re-establish themselves or their relatives back in the community, or to avoid going into institutional care.

From **April 1987** payments out of the Fund will be given for maternity and funeral needs — low income families both working will be able to apply for grants to cover basic maternity and funeral needs. These means tested grants will replace the current system of universal grants plus access to single payments (see pages 21—22).

The Fund will be administered by special officers in the DHSS working on the following lines:

- each DHSS office to have its own "kitty" from which the loans or grants will be paid out;
- all payments will be discretionary and will have to be met out of each office's budget (except for maternity grants which will be paid automatically to families on Income Support or Family Credits) or loans for funeral expenses;
- no detailed rules will be available to help claimants to apply;
- there will be no right of appeal beyond the DHSS local office if a claim is refused;
- no-one with savings over £500 or wanting a loan of less than £20/£30 will be able to apply to the Fund;
- those refused loans will be offered budgetting advice, possibly in conjunction with social workers.

The 'rationing' of grants, the discretionary power given to DHSS officials, and the loss of appeal rights will mean that payments will be made on the basis of individual judgements about whether an applicant is 'deserving' or 'undeserving', and whether they have mismanaged their benefit or have just been unfortunate.

With the abolition of the safety valve which such payments represent Income Support claimants will face the prospect of either trying to repay a loan out of — in most cases — a reduced rate of Income Support, or of going without essential items. Either option will take the claimant below the poverty line, a concept already weakened by the proposal to make claimants pay 20% of rates out of Income Support payments designed to cover only day-to-day subsistence needs.

Housing benefit

Housing Benefit is currently paid to 7½ million households. About 4 million of them who are on supplementary benefit have their rent and rates paid in full. The others — about 3½ million households — **not** on supplementary benefit, including low income working families and pensioners, have housing benefit calculated as follows: a "needs" allowance is set, currently at £47.70 for a single person and £70.20 for a couple or single parent, with additions for children, disablement etc; those whose gross income equals the needs allowance receive a rebate of 60% of rent and 60% of rates; these whose gross income is below the allowance receive a larger rebate; those with incomes above the allowance have the rates rebate withdrawn by 13p for every £1 that income exceeds the allowances and rent rebate withdrawn by 29p for every extra £1.

From 1988 the Government is proposing to change the way the system works — and 'save' £450 million a year by:

- applying common rules, in respect of assessing resources and need, to **everyone** claiming benefit;
- those on Income Support, and those whose **net** income is equivalent will receive a 100% rent rebate, but a maximum rates rebate of only 80%;
- those with net incomes above the equivalent level of Income Support will have their rates rebate withdrawn by a 'taper' of 20p for every extra £1 of **net** income and their rent rebate withdrawn by a 'taper' of 60p for every extra £1 of net income;
- a capital cut-off will be applied for the first time, in the same way as for Income Support;
- local authorities will lose their power to run local schemes for people who do not qualify for housing benefit but are nevertheless at the moment considered to be in need of assistance (the only exception allowed will be in the case of war pensioners and other individuals considered to be in "exceptional" circumstances).

The combined effect of these proposals will leave most households currently receiving housing benefit worse off. Having to pay 20% of rates could leave Income Support claimants as much as £2.50 — £3.00 a week worse off. The steeper tapers will hit tenants hard, especially young single people — as they will face a reduction of 80p in the pound on rent and rates. The combination of the steeper tapers and the introduction of a savings rule will force an estimated 375,000 households — most of them pensioners — off housing benefit altogether.

	Example 1: Middle-aged couple, one of whom is working	Example 2: 24-year old single person in work	Example 3: Pensioner couple
	£	£	£
Weekly Gross Income	100.00	65.00	95.00
Rent	17.00	15.00	18.00
Rates	8.00	7.00	8.50
Current housing benefit	9.74	13.20	5.84
Future housing benefit	5.06	.67	2.56
	ie. loss of £4.69	*ie. loss of £12.53*	*ie. loss of £3.28*

Source: *SHAC*

The government claims that the proposals overall will radically simplify the current system, but it is difficult to reconcile this with a proposal which burdens local authorities with the huge task of collecting 20% of rates from people least able to afford them. What is clear, however, is that the government's intention is to re-inforce the political objectives of rate-capping.

The housing benefit section of the white paper omits all mention of mortgage tax relief. In contrast to housing benefit, which has been cut back since 1979, help to owner-occupiers in the form of mortgage interest tax relief has gone up from £1,450 m in 1979/80 to £3,500m in 1984/85.

Family credit

Family Credit will replace Family Income Supplement, (FIS) a means-tested benefit currently available for people in work who have children and whose income is below a certain level. FIS is currently taken up by 200,000 families, approximately only 50% of those who are eligible to claim.

The main features of the new system to be introduced from April 1988 will be:

- benefit to be linked to the new Income Support system, with maximum Family Credit being paid only to a working family whose **net** income is at or below the equivalent of Income Support (ie £48). The amount of Family Credit suggested is £29.85 for adults, plus child credits varied according to age;
- thereafter, Family Credit will be withdrawn by 70p for every extra £1 of net income (as opposed to the current taper of 50p on gross income);
- earnings to be assessed on the basis of 5 weeks' net earnings with details to be supplied by the employer instead of the claimant;
- Family Credit to be claimed through DHSS, as now, but to be paid via the **employer** (who will offset the payment against tax and N.I. payments, in the same way as statutory sick pay) rather than through the Post Office;
- benefit to be paid for 6 months only (compared to the present 12 months) after which it will have to be claimed again;
- Family Credit to include compensation for the loss of free school meals and milk, which will in future go only to those families on Income Support. (Local Authority discretion to provide free school meals or welfare foods to other families will also disappear).

The government estimates that expenditure on Family Credit will be double that of FIS, and that the worst features of the so-called 'poverty-trap', will be removed so that low-paid families will no longer lose more than £1 in tax and lost benefits for every £1 extra income. But according to figures produced by the Child Poverty Action Group, the picture for low-income families is not quite so good, particularly for those earning less than £100 per week. For example, taking the changes in housing benefit into account a two-parent family with two children earning £80 a week gross would **lose** just over £5 a week and the one-parent family £8.47. Moreover these

figures take no account of the impact of the **cuts in the real value of child benefit** which have already been implemented, and are planned for the future.

While the structure of the new benefits does end the extreme poverty trap of losing more than £1 in tax and lost benefits for every extra £1 earned, this will only be at the price of an extra ¼ million families losing over 70p for every extra £1 earned (see table 5). This is the result of the new steeper housing benefit tapers, and the new Family Credit taper.

Table 5:
For every extra £1 gross earned claimants will lose

	Numbers Affected	
	Present System	New System
More than £1	70,000	0
More than 90p	60,000	40,000
More than 80p	160,000	420,000
More than 70p	0	110,000

Source: Hansard 15.1.1986 Col 594

Other aspects of the scheme are equally worrying. Firstly paying Family Credit via the wage-packet will discourage some employees who do not wish their employer to be involved in benefit claims from claiming. Some employers may also not be enthusiastic because of the extra administrative work involved. Employees working in small non-unionised firms, people who change jobs frequently and people with more than one job are likely to face particular problems.

Secondly the spread of the low-wage economy will be encouraged by creating what will virtually be a direct wage subsidy.

Thirdly payment of Family Credit through the pay packet will mean that the benefit (together with free school meals and milk which Family Credit is supposed to pay for) may **not** be paid while a worker is on strike.

'FAMILY CREDIT'

Fourthly, payment through the wage packet will adversely affect women. In four out of five families claiming FIS, the father is the main earner, but it is usually the mother who receives FIS through the Post Office. Under Family Credit, this money will be redirected into the hands of the father.

Maternity, death and widowhood

Maternity provision

Maternity grant, currently paid at £25 on a universal basis to every mother who has a child, will from April 1987 be subject to a means test. Low income families, both in and out of work, will be eligible to apply to the new Social Fund for a means tested grant which, if given, will be set at £75.00 (Claimants with more than £500 savings will have the grant scaled down).

The government claims that it is trying to direct more resources towards low-income families with children. In reality, the poorest families on Income Support will get **less** money, because they will lose access to single payments (for baby goods etc) which are currently worth £85. Working families on very low incomes will gain, but only at the expense of 500,000 other families who will lose the grant altogether and hence a part of their stake in the social security system.

Maternity Allowance — an insurance-based benefit currently paid for a fixed period of 11 weeks before and 7 weeks after a birth — will continue, but from 1987 there will be two important differences:

- the allowance will be paid through the employer as 'Statutory Maternity Allowance', in the same way as statutory sick pay;
- eligibility will be restricted to those who have been working for the previous six months.

The effective privatisation of the maternity allowance will bring with it all the administrative problems that Family Credit will face (see page 19), particularly for women working in small, non-unionised firms. Such firms are also even more unlikely to want to take on women who may become pregnant.

There will be greater flexibility of the period for which the allowance is paid, a welcome move for many women (provided that their employers do not try to persuade them to give up work either later or earlier than they would otherwise wish to do). Restricting eligibility to those who have worked in the last 6 months will, however, exclude an estimated 85,000 women from the benefit altogether —

even though they will have paid the necessary contributions under the present rules.

Death Grant

Also from 1987 the universal grant of £30, plus access for families on supplementary benefit to single payments for funeral expenses, will be abolished. In their place will be a means tested loan which will be paid to low income families — both working and non working — out of the new Social Fund. The amount loaned will be decided locally by the DHSS based on the estimated local cost of a simple, basic funeral. The loan will be recovered from the estate of the deceased and will not "generally" have to be repaid by the relative responsible or — in the case of the unemployed — by deduction from weekly Income Support payments.

Widow's benefit

From 1988, the Government is proposing to:

- replace widow's allowance — currently paid for 26 weeks at £53.60 — with a one-off cash payment of £1,000 — a loss of £393.00;
- pay widow's pension and widowed mother's allowance from the outset of widowhood rather than after six months. However it also intends to reduce the numbers of women eligible to claim these benefits. Widows under 45 will no longer be able to claim widow's pension at all and widows between 45-55 will have their widow's pension reduced. Widowed mother's allowance will no longer be payable to women with children over 16 for whom child benefit is not payable;
- reduce Industrial Injuries widow's benefit in the same way;
- cut by 50% a widow's entitlement to her late husband's State Earnings Related Pension (see page 3).

Existing widows will not have their actual benefit reduced but by 1988, 25,000 widows every year will lose out and eventually over 200,000 widows will be worse off than under the present system. A widow of under 45 years of age could lose over £18,000 by the age of 60. By the mid-90s the Government will have cut the amount it spends on widows benefits by £100 million per year. (*see Table 2, p52, white paper*)

DHSS administration and timetable for change

Most of the government's proposals will not be introduced until April 1988. However, the government is still planning to push the necessary legislation through parliament by summer 1986 in order to start the necessary reorganisation of the DHSS.

For DHSS staff, the scale of the re-organisation on top of current acute staff shortages will make it even more difficult to provide a semblance of a decent service to claimants. The civil service unions in the Department have lodged a claim for an extra 15,000 staff to ease the pressures caused by continuous cutbacks in staffing levels at a time of escalating unemployment. The claim has been given extra weight by the publication at the end of 1985 of a report by the Chief Adjudication Officer for the DHSS which said that one out of every three supplementary benefit claims processed by the DHSS had been incorrectly calculated.

Once the proposals are introduced the unions fear that the effects of lower benefits, combined with the disciplinary and potentially punitive nature of the Social Fund will further damage relations between staff and claimants.

In the long-term the privatisation of several benefits and the extension of computerisation, made possible by the simplification of eg. the Income Support payments, will lead to significant reductions in permanent staffing levels. For claimants already introduced to postal claiming, computerisation will add to the "depersonalisation" of the benefits system.

The whole process of change will be supervised by a newly-created social security 'management board' comprising private industry experts as well as civil servants. This move to involve the private sector continues an important trend in the management of public services.

Industrial injuries

The Government has published a separate consultative paper on the industrial injuries Scheme, which makes proposals for cutting the benefits payable in four main areas: to those with minor industrial injuries — by ceasing to pay disablement benefit below 15% disablement; to those who are retired — by no longer paying special hardship allowance (SHA) after retirement; to industrial widows — whose benefits will be cut back in the same way as national insurance widows' benefit; to those in receipt of constant care allowance — by reducing the value of the allowance. It is thus a very crude mechanism for saving money at the expense of people suffering industrial injuries and their dependants. It also marks a significant shift in philosophy from compensating people for their injuries plus loss of earnings to compensating them for loss of earnings alone.

3. ACTION FOR BENEFITS

The campaign against the government's Bill needs to go beyond a simple fight to keep the existing social security system. SERPS must be defended and preserved, but much of the present benefits system does need fundamental change.

There is an alternative to the wholesale decimation being proposed by the government. The crucial decision which needs to be made now by the labour movement is what kind of social security system does it want?

'**Action for Benefits**' is a grouping of trade union pressure groups, and individuals who are campaigning **against** the government's proposals and **for** the adoption of social security policies based on the following principles:

- maintenance of the principles of state support for guaranteed pensions provided by SERPS;
- social security based on the aim of preventing poverty arising through the collective pooling of risks and resources — not merely based on the relief of poverty;
- social security meeting the needs of **all** people in society on the basis of adequate benefits paid **as of right** without means testing;
- social security providing such benefits to give individuals and families independence, and the confidence that their level of living and quality of life will not be eroded by any social or economic eventuality;
- social security benefits paid at an adequate level with an independent study commissioned to determine these levels; at a minimum, levels of benefit should enable people to participate freely in the community;
- recognition that an adequate social security system is only a part of overall social provision; and must be combined with policies to tackle unemployment, low pay, health care, education and housing;

The implementation of these proposals will **not** bankrupt the country. They can be afforded firstly by reversing the redistribution of wealth from social security claimants to the very richest in society which has occurred since 1979. Secondly, a positive employment policy would then cut the cost of the system substantially and, by implication, bring in more revenue.

Action by trade unionists, as individuals and within branches, will determine whether such ideas ever become a reality — or whether the welfare state will be taken by the government in an entirely different direction.

What you should do:

- discuss the government's proposals for dismantling the welfare state in your trade union branch, Trades Council, claimants' group, political party, or other organisation;
- get more literature or invite a speaker who is familiar with the subject of social security if you feel you need more information;
- find out whether there are other local groups already campaigning on this issue and if so, join them. If there are not try to get a local campaign off the ground;
- obtain copies of the parliamentary petition being submitted through the DHSS unions, Action for Benefits and the Labour Party and collect as many signatures as you can;
- write to your MP, saying that you are against the proposals and believe that no further work should be carried out on them until they have been put to the electorate at the next general election. Get a positive commitment from your MP to campaign against these government proposals and for more positive proposals both in and out of parliament;
- ensure that social security becomes an issue at every local election between now and 1987, and that your local council is aware of how the proposals would affect their voters.

Who you can contact to find out details of campaign groups in your area:

- Action for Benefits Tel: 01-249 3334
- Society of Civil and Public Servants (DHSS group) Tel: 01 928 9671
- Civil and Public Services Association group (DHSS section) Tel: 01 228 1455
- National Campaign Against Social Security Cuts Tel: 031 557 0213

Further Action for Benefits information available

- *Reform of Social Security — Briefing Paper I* — Overview of Government Green Paper Proposals
- *Reform of Social Security — Briefing Paper II* — State Earnings Related Pension Scheme
- *Reform of Social Security — Briefing Paper III* — Impact of Proposals on Women (Revised version available January 1986)
- *Reform of Social Security — Briefing Paper IV* — Pre-White Paper Briefing
- *Reform of Social Security — Briefing Paper V* — White Paper Briefing
- *Reform of Social Security — Briefing Paper VI* — The Bill
- Action for Benefits leaflets on how the proposals will affect different groups of people.
- Action for Benefits Exhibition available for meetings/conferences. Poster version for sale.
- Action for Benefits video "*Fair Means or Fowler*"
- MORI — poll on "*Public Attitudes to the Welfare State*"
- Speakers list supplied.
- Details of local Social Security Campaigns available
- Regular mailing list service provided

For details/orders and information about costs of any of the above please contact:

Action for Benefits
c/o LMS, 8 Bradbury Street,
London N16 8JN
Tel: 01 249 3334

Stealing our future

The Independent Pensions Research Group, a group of academics, trade unionists, and pensions practitioners working on questions of state and occupational pensions, has published a detailed pamphlet to explain the government's pensions proposals and their objectives, analyse the effects, and consider ways of fighting them.

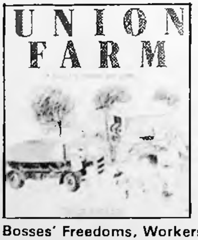
Stealing our future is written for trade union activists with an interest in, or involvement with, State or occupational pensions. It costs 75p plus 25p postage and packing, or 50p a copy for orders of 100 or more.

To order a copy, send cash with order to IPRG, c/o 19 Badminton Road, London SW12 68N.

Negotiate with LRD

State benefits 1986
LRD's annual booklet for trade unionists is a complete and up to date guide to benefit rights. The booklet has been considerably revised to take account of new developments. Price £1.05 (January 1986)

Black workers, trade unions and the law shows that workers organised in their unions can effectively combat racism and racial discrimination when they take up issues at work relevent to black members. Individual sections deal with workplace agreements, black members in the unions, race discrimination law and immigration controls. Price £1.15 (October 1985)



The Labour Research Department sold nearly half a million of its publications to trade unionists and members of the labour movement last year. To order write to The Secretary, LRD, 78 Blackfriars Road, London, SW1 8HF enclosing cheque for publications requested.

Early Retirement A look at a new issue for trade unionists, with detailed guidelines for negotiating the best arrangements. Price £1.10 (November 1985)

VDUs Health and Jobs As many as 2m VDUs are now in operation in the UK. Concern about health risks and job loss are dealt with in this new booklet. Price £1.25 (September 1985).

Solidarity with the Miners Based on a unique survey of miners' support groups and sponsored by 16 major trade unions. Packed with illustrations, photographs, posters, leaflets, showing the tremendous support for the miners from trade unionists and community organisations everywhere. A donation of 25p for every book sold goes to the Miners' Solidarity Fund for the support of victimised miners. Price £2.10 (including donation) (August 1985)

Union Farm is the first children's story book to be published in this country which explains the benefits of workers joining together to form a union. The book contains nineteen 2-colour illustrations and is accompanied by a full-size 2-colour poster. Price (book) £2.10p, (poster) 65p. (June 1985)

Our regular publications:

Labour Research:
LRD's monthly publication and Britain's leading trade union magazine.
Its regular surveys of the economy and industry, politics and power look at Britain through the eyes of its organised workforce. An annual subscription to Labour Research costs £12.15 to affiliates, £14.00 to non-affiliates — can your branch afford to be without it?

Bargaining Report:
11 issues a year containing survey material on major pay and conditions topics presented from the standpoint of trade union best practice. Price £16.25 to affiliates and £24.25 to non-affiliates and £120 to employers and commercial organisations.

Fact Service:
is LRD's weekly news bulletin that provides a regular flow of up-to-date facts on unemployment, prices, earnings and directors' pay. Drawing on government statistics and other sources it gives trade unionists concise and relevant information about the economy, industries, companies and personalities. Price £20.50 to affiliates and £23.00 to non-affiliates.

Bosses' Freedoms, Workers' Burdens explains what the government's latest proposals, contained in three important documents published at the end of March, will mean for unfair dismissal rights, health and safety protections and low paid workers. The booklet effectively refutes the government's argument that it is high wages which cause unemployment. Price 55p. (April 1985).

Sick Pay — a negotiator's guide contains the largest and most comprehensive survey ever undertaken in the UK on the operation of company sick pay schemes. The booklet also shows the impact of statutory sick pay on existing schemes and explains the legal basis for both the statutory and workplace schemes. Price £1.65 (March 1985).